



Management Discussion and Analysis of Financial Position and Results of Operations..... 14

Analysis of Results..... 15

Liquidity and Capital Resources 15

Risks 16

Strategy and Goals 17

Management's Statement of Responsibility 18

Auditors' Report..... 18

Consolidated Balance Sheets..... 19

Consolidated Statements of Operations and Deficit..... 20

Consolidated Statements of Cash Flows..... 21

Notes to Consolidated Financial Statements 23

Management Discussion and Analysis of Financial Position and Results of Operations

The following discussion of the results and financial position of the company for each of the year ended December 31, 2002 and 2001 should be read in conjunction with the consolidated financial statements and related notes.

All financial information in these consolidated financial statements is presented in U.S. dollars.

Significant Financial Data

The table below shows the significant financial data:

Year ended December 31	2002	2001
	\$	\$
Gold sales	12,509,216	-
Net profit / (Net loss)	(1,075,326)	(2,105,681)
- per share	(0.01)	(0.03)
Operating cash flow*	2,412,839	(1,716,628)
Cash operating cost (\$/ounce sold)	177	-
Total cash cost (\$/ounce sold)	194	-
Average selling price (\$/ounce)	306	-

Production Update

Year ended December 31	2002	2001
Operating Statistics		
Gold sales (ounces)	40,931	-
Gold production (ounces)	42,005	-
Plant throughput	295,919	-
Head-grade (g/Tonne)	5.42	-
Recovery (%)	85.2	-
Cost per ounce – Production basis		
Cash operating cost (\$/ounces)	170	-

*excluding changes in working capital

Considering the company's new mining activity which began during the second quarter of 2002, certain results for the years ended December 31, 2002 and 2001 cannot be compared.

MINING OPERATION

During the year ended December 31, 2002, Semafo produced 42,005 ounces of gold at a cash operating cost of \$170/oz. A total of 295,919 tonnes of ore at an average grade of 5.42 g/t, were treated at the Kiniero mine during the year ended December 31, 2002.



ANALYSIS OF RESULTS

For the year ended December 31, 2002, the company recorded a net loss of \$1,075,326 (\$0.01 per share) compared to a net loss of \$2,105,681 (\$0.03 per share) in 2001.

Gold sales totalled \$12,509,216 representing the sale of 40,931 ounces of gold at an average price of \$306 per ounce.

Operating expenses for the year totalled \$8,113,112 representing the production costs of 40,931 ounces of gold at a total cash cost of \$194 per ounce. Amortization expenses amounted to \$4,250,861 compared to amortization expenses of \$75,127 for the year 2001. Production at Kiniero mine having started during the year 2002, amortization of exploration and development expenditures and construction costs is now accounted for in the Statements of earnings based on ounces sold. The amortization expense per ounce sold during the year is \$102.

Following an exceptional effort to reduce costs, administrative expenses have been reduced from \$1,454,401 in 2001 to \$1,214,950 in 2002. No write-down of fixed assets or write-off of mining assets were recorded this year compared to \$702,549 in 2001.

Interest and other income decreased from \$405,510 in 2001 to \$289,375 in 2002. This variation is the result of lower liquidity in 2002 compared to 2001 following investments on the Kiniero project.

During the year 2002, the company realised a gain of \$561,895 on the disposal of 2,860,000 common shares of Nevsun Resources Ltd (Nevsun). Semafo obtained these common shares on the disposal of its interest in Segala Mining Corporation S.A. (Semico) to Nevsun. No gain of this nature has been recorded last year.

Interests on the long-term debt increased from \$257,927 in 2001 to \$1,041,039 in 2002. This increase is due to a loan of \$8,000,000 obtained in November 2001, used to finance the construction of the Kiniero mine infrastructures.

During 2002, the company recorded a foreign exchange loss of \$42,942 compared to a foreign exchange loss of \$240,061 in 2001. Those losses are mainly due to the conversion to U.S. \$, at the exchange rate at the end of the year, of an advance payable and of the cash and cash equivalents denominated in Canadian dollars.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

The operating activities, before changes in working capital, generated a positive cash flow of \$2,412,839 in 2002, compared to a negative cash flow of \$1,716,628 in 2001.

Working capital items required investments of \$1,580,073 in 2002 compared to \$559,621 in 2001. Exploitation of the Kiniero mine required investments of \$1,525,492 in accounts receivable and \$1,830,501 in stocks. These investments have been offsetted by an increase of \$1,741,404 in accounts payable and accrued liabilities.

Financing Activities

In February 2002, the company reimbursed the debentures in the amount of \$3,783,136. In order to meet this commitment, a loan of \$4,000,000 was obtained which generated an inflow of \$112,118 after the repayment of accrued interests of \$104,046.

During the year, the company entered into an agreement with its lender allowing it to postpone the repayment of its long-term debts. Under this agreement, the capital amount of \$12,000,000 will be reimbursed in one amount, on December 31, 2005.

Management Discussion and Analysis of Financial Position and Results of Operations (cont'd)

Investing Activities

During the year, liquidities of \$7,316,966 have been invested in mining assets compared to an investment of \$11,128,602 in 2001.

In Guinea, an amount of \$6,227,289 was invested in 2002. From that amount, \$5,396,849 represents capital expenditures and development costs for the Kiniero mine. Exploration expenditures on Jean Gobele amounted to \$830,840.

In Burkina Faso, liquidities of \$653,228 were invested in exploration on Mana property.

In Niger, \$258,507 was invested for the storage and the maintenance of the fixed assets and other infrastructures on Samira Hill.

During 2002, the company sold its 77 % interest in Semico. Following that transaction the company received a first payment of \$1,000,000 in cash and 2,860,000 common shares of Nevsun, which have been sold during the last quarter of 2002 for a cash consideration of \$2,539,941.

The company also invested \$328,042 in fixed assets representing mining costs, which will be amortized over the next few months.

Deferred charges increased by \$385,123 in 2002 compared to \$96,629 in 2001. This increase results from the efforts to obtain the financing required for the Samira Hill gold project in Niger.

Cash and cash equivalents amounted to \$6,379,423 as at December 31, 2002, compared to \$10,016,249 at the end of last year.

RECONCILIATION OF TOTAL CASH COST PER OUNCE TO FINANCIAL STATEMENTS

Year ended December 31, 2002	\$
Operating costs per financial statements	8,113,112
Reclamation and closure costs	(171,364)
Operating costs for per ounce calculation	7,941,748
Ounces sold (thousands)	40,931
Total cash costs per ounce sold	194

The total cash cost is calculated using the Gold Institute guidelines.

RISKS

SEMAFO, as a mining exploration company, faces the environment, financial and political risks inherent to the nature of its activities. The Company also faces risks stemming from other factors, such as fluctuations in gold prices, exchange rates and financial market conditions in general.

To reduce the risk associated with the fluctuations in gold prices, the company entered into fixed forwards gold sales. As at December 31, 2002 the company had gold sales commitments for 140,000 ounces of gold at an average price of \$292.50 per ounce. This hedging strategy is reducing the risks and is allowing the company to take advantage of improvement in gold price.



STRATEGY AND GOALS

In a continued effort to maximize the value for its shareholders, Semafo's strategy is mainly the development of the properties it already possesses.

In accordance with its strategy, in 2002, Semafo finalized the construction of the Kiniero Gold mine. The first eight-month production is established at 42,005 ounces of gold and the objective in 2003 is to produce 60,000 ounce of gold. Moreover, detailed drilling, having as a main objective the increase of reserves on Kiniero mine, will be realized in 2003.

Semafo maintains its objective to put the Samira Hill project in Niger into production. In 2003, Semafo aims at finalizing its financing and to restart construction of the mine.

In 2002, RC drilling campaigns resulted in a 56% increase of resources on the Mana Project and an orientation study was performed. Following those developments, Semafo has set as an objective for 2003, the upgrade of the quality of the resources and the realization of the project's feasibility study.

ACHIEVEMENTS 2002

- ✦ Starting of operation at the Kiniero mine, in Guinea
- ✦ Succeeding production of 42,005 ounces of gold at a cash operating cost of \$170
- ✦ Arranging the first level of financing for the Samira Hill project in Niger
- ✦ Increasing by 56% the total resources of the Mana project in Burkina Faso
- ✦ Selling our interest in the Segala mining property in Mali

GOALS 2003

- ✦ Producing 60 000 ounces of gold and increasing the mineral reserves at Kiniero, in Guinea
- ✦ Concluding the financing for Samira Hill and resume construction of the mine in Niger
- ✦ Upgrading the quality of the resources on the Mana property, in Burkina Faso, and preparing a feasibility study

The Management of the Company is responsible for the preparation of the consolidated financial statements and information contained in the Annual Report. The consolidated financial statements were prepared in accordance with generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgments. Financial information contained elsewhere in this report is consistent with the consolidated financial statements.

Management maintains accounting systems and internal control to produce reliable financial statements and provide reasonable assurance that assets are properly safeguarded.

Pricewaterhouse Coopers LLP, Chartered Accountants, are appointed by the shareholders and conducted an audit on the Company's financial statements. Their report is included.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board of Directors carries out this responsibility through its Audit Committee, which is composed of four members of which two are independent directors and two unrelated directors. The Committee meets on an annually basis with the external auditors, with and without management being present to review the financial statements and to discuss audit and internal control related matters.

On recommendation of the audit Committee, the Board of Directors approved the Company's consolidated financial statements.



Benoit La Salle
President and Chief Executive Officer



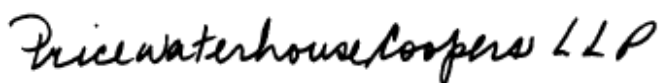
Benoit Desormeaux
Chief Financial Officers

Auditor's Report

We have audited the consolidated balance sheets of **SEMAFO Inc.** as at December 31, 2002 and 2001 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conduct our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

February 14, 2003